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The Director of Central Intelligence  
Washington, D.C. 20505

NIC #04299-84  
25 July 1984

National Intelligence Council

MEMORANDUM FOR: Chairman, National Intelligence Council

FROM: Maurice C. Ernst, NIO for Economics

SUBJECT: CIA and DIA Estimates of the Dollar Cost  
of Soviet Military Expenditures

1. I am basing this memo on second- and third-hand information about your intentions to down-play or eliminate altogether the release of dollar cost estimates of Soviet military expenditures. I have no problem whatsoever with deemphasizing the dollar comparisons. These have been misused repeatedly, especially by DoD. I very much doubt, however, that CIA, or DIA, can stop altogether producing and publishing these estimates, at least on a classified basis, if only because Congress will not let us do so.

2. I am well aware of the many ambiguities in the meaning of the dollar cost estimates. We go to great lengths to deny that they have any connection with relative military capabilities because they represent flows rather than stocks and costs rather than military utility--the latter being dependent not only on performance of a weapons system, but also on the way it is used. Dollar costs do represent a common denominator of sorts to aggregate various Soviet weapons systems and their components. On a cumulative basis, they probably do have a rough correspondence to military utility, despite the caveats, and indeed are used for that purpose. In any event, they should be viewed as only one among many indicators of relative military strength. Obviously, dollar costs are not a measure of the burden of defense on the Soviet economy, and unfortunately they are sometimes used for that purpose.

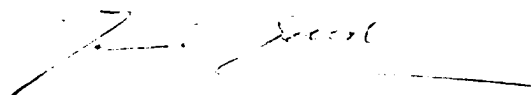
3. For good or for ill, however, the US Executive Branch, Congress, and the public have become accustomed over the past 20 years to using dollar cost comparisons of military expenditures. I do not believe that we can get away with suddenly ceasing to publish such estimates. Congress in particular will insist that such estimates continue to be prepared and made available.

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4. As you will recall, the report of the Working Group on Soviet Military Economic Analysis recognized that CIA dollar cost estimates were often misused, but concluded that for CIA to "simply stop publishing or even preparing estimates of Soviet military expenditures . . . is both impractical and undesirable. We recommend . . . that the CIA publish the estimates, that their meaning and limitations be explained more fully, and that the CIA put restrictions on their use by other Executive Branch agencies, requiring that they be quoted only with appropriate qualifications." The report also concluded that "the users were unanimous in their opinion that the various players in the defense debate--the military services, the Secretary of Defense and his office, the Congressional committees and their staffs, and the general public--absolutely demanded a shorthand yardstick to compare US and Soviet military spending, as a surrogate for overall spending capabilities." Moreover, military expenditures are a component of GNP, and Soviet-US comparisons of GNP and dollars have also been a CIA staple product for over 20 years. There appears to be no good reason to suddenly drop the GNP comparisons, which are used for a great many legitimate purposes.

5. I am particularly concerned about withholding publication of dollar cost estimates of defense expenditures at the very time when the Soviet lead over the US appears to be disappearing. There are many in Congress who will assume that the motive for withholding publication is that the numbers no longer appear to support Administration policy. Obviously even the faintest suggestion that this may have been a motive will get you, the Director, and the Agency in trouble.

6. I strongly recommend that you and the Director discuss this issue with a variety of people who are familiar with it, including some NIOs and former NIOs like Hans Heymann, Ivan Selin, and some other members of the MEAP. I believe we have two realistic options: (1) to follow the recommendations of the Working Group on Soviet Military and Economic Analysis--namely, to continue publication but insist on applying qualifications and restrictions on the use of the numbers; or (2) begin a process of deemphasizing the dollar numbers in our publications by focusing on the defense burden, and, where we provide dollar costs, by emphasizing categories of weapons systems rather than aggregates. In time, perhaps DoD and Congress can be weaned away from misusing the dollar cost numbers, but we should not expect this to happen all at once.



Maurice C. Ernst

cc:

VC/NIC

D/SOVA (4 LDX'd 27 July)